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29 March 1957



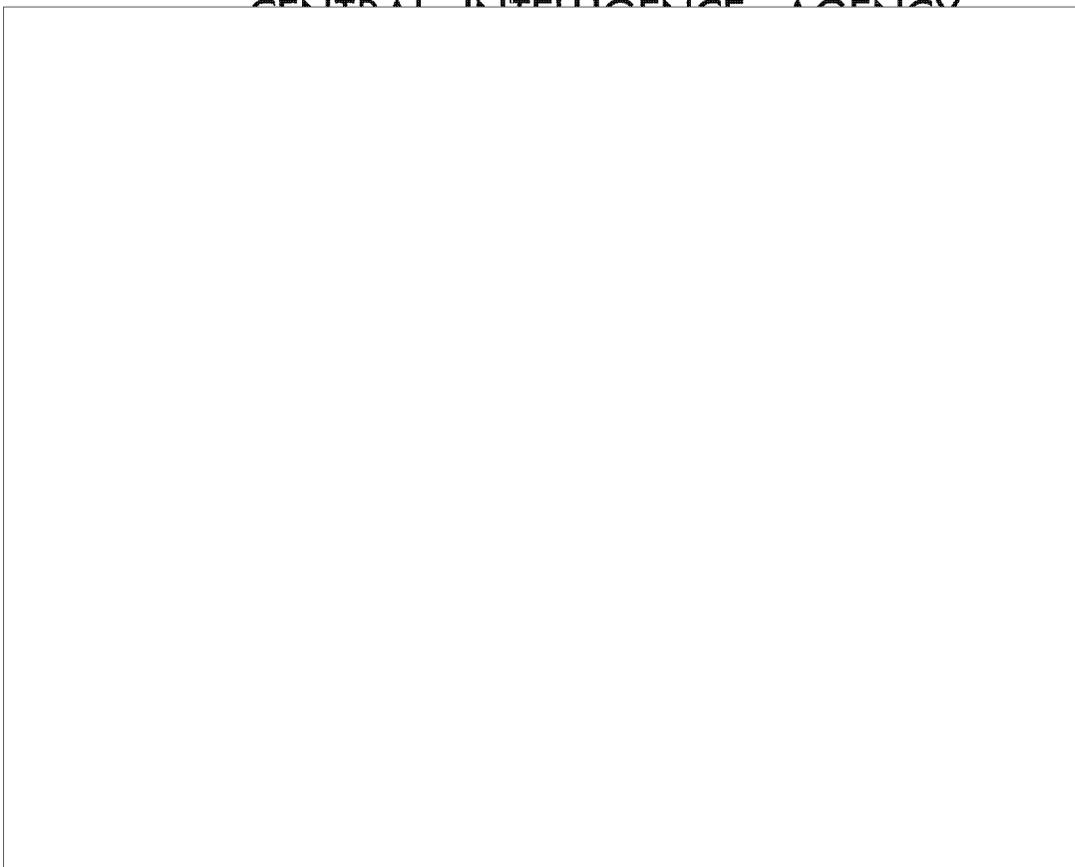
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1. EGYPT PLANS INTERNATIONAL CONFERENCE IF CANAL MEMORANDUM IS REJECTED

Reference:

[redacted] Ali Sabri, Nasr's chief political adviser, stated on 27 March that if Egypt's memorandum on the Suez Canal meets an unfavorable response

from a majority of the nations who received it, the only alternative will be to call an international conference of interested nations. These nations presumably would be chosen and invited by Egypt. Sabri said the Egyptian government anticipated an unfavorable reaction from Britain, and especially from France, but that it had no intention of calling a conference merely to satisfy one or two "malcontents."

Sabri said the memorandum as it stands is the product of Nasr's talks with UN Secretary General Hammarskjold and also reflects some Indian ideas. The Egyptians expect comments from the recipients--the United States, the USSR, India, Yugoslavia, Syria, Jordan and Saudi Arabia--and are willing to modify the memorandum to meet "reasonable" comments "compatible with Egyptian sovereignty."

In emphasizing Egypt's intention to keep politics out of the canal and to run it as a business, Sabri stated that Israeli ships would be the exception since Israeli passage of the canal would be tantamount to political suicide for the Nasr regime. He said any decision by the International Court of Justice favoring Israeli transit of the canal would simply be rejected. [redacted]

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2. SAUDI ARABIA TO INSTALL COAST DEFENSE GUNS ON GULF OF AQABA

Eight coast defense guns together with ammunition were reported in northwest Saudi Arabia on 19 March en route to Haqal, a Saudi port about 25 miles south of Aqaba and headquarters for Saudi forces in the northern gulf area.

Comment

Although Saudi Arabia has refused to recognize the rights of Israeli shipping in the gulf, it has thus far lacked the means to offer effective opposition. Saudi forces along the gulf have been supported by a few 25-pounder artillery pieces (88-mm.)-- including at least two at Shaikh Hamid at the entrance to the gulf. The only navigable channels through the strait, however, are near the Egyptian shore and beyond the effective range of these weapons. Some of the new guns will probably be emplaced to cover the entrance to the gulf, and others north of Haqal to fire on the approaches to the Israeli port of Eilat.

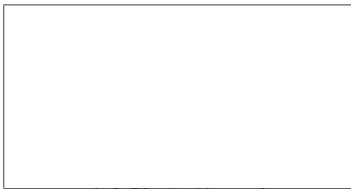
The source of these coastal guns, and their caliber, is unknown. Saudi Arabia has been negotiating for coastal artillery with Spain, Syria and Egypt.

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3. CAIRO ORDERS CO-OPERATION WITH UN IN GAZA

Reference:



The joint Arab command in Cairo ordered Major General Latif, Egyptian governor of Gaza, on 25 March to "work to settle the situation in accordance with the Egyptian government's policy by providing all suitable facilities for the international forces and their headquarters, in the present circumstances."

While Cairo previously professed an intent to co-operate with the UNEF, [redacted] Egypt intended to create difficulties for the UNEF. [redacted]

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4. MAKARIOS' RELEASE POSSIBLE PRELUDE TO NEW CYPRUS NEGOTIATIONS

Comment on:

London's release of Archbishop Makarios from exile in the Seychelles, announced on 28 March, will probably result in new negotiations with him over Cyprus' future. A Colonial Office official said on 27 March, however, that the British are not disposed to start new negotiations immediately, partly because of Turkish opposition, and

will not allow Makarios to return to Cyprus. The Colonial Office said Makarios was released because the British are "heartily sick of carrying him like an albatross around their necks," but it believes he is not likely to co-operate on anything less than early enosis.

While Britain has published a statement from Makarios which includes a demand for direct conversations between the British government and the Cypriots, Colonial Secretary Lennox-Boyd prefers to seek the "good offices" of NATO first, but indicated talks with Makarios and other Cypriots would be considered later. Many officials believe Makarios is the only leader capable of obtaining any Cypriot co-operation on the Radcliffe constitution. Pressure for early talks with Makarios would be increased if EOKA leader Grivas accepts the safe-conduct to leave Cyprus offered by London on 28 March. Any negotiations would presumably be based on the Radcliffe constitutional proposals for limited self-government.

If Makarios goes to Athens, however, which he is now free to do, the Greek government will be seriously embarrassed and the attendant propaganda will retard progress toward any solution.

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5. SOVIET STATEMENT ON ISRAELI AND FRENCH "PROVOCATIONS"

Reference:

The TASS statement of 28 March that the Soviet government "resolutely condemns" alleged Israeli and French preparations for a "new aggression against Egypt" may have been inspired by a Saudi request. [REDACTED]

The TASS statement is another Soviet attempt through propaganda to cater to Arab prejudices; it makes no specific threats of Soviet action, but merely points to the "heavy consequences for the cause of peace" of any Israeli action. The USSR is apparently anxious to avoid an outbreak of fighting since it probably believes that the present impasse is more conducive to achievement of its objectives in the area.

Soviet ambassador to Israel Abramov, who was recalled to Moscow last November, is reported en route to Israel via Paris. The USSR will probably seek to convince the Arabs that Abramov's return will aid in a renewal of Soviet pressures on Israel.

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6. JAPANESE SEEK REVISIONS OF MILITARY TIES WITH THE UNITED STATES

[REDACTED] The Japanese Foreign Ministry is now drafting proposals for revisions of present US-Japanese military agreements which would call for specific

limitations on (1) the number of American bases in Japan, (2) the Japanese financial contribution to their maintenance, and (3) the time period for United States control, [REDACTED]

[REDACTED] Prime Minister

Kishi also wants an agreement on joint use of the bases by Japanese military forces.

A high government official says that Kishi, for political reasons, must obtain tangible concessions during his prospective visit to the United States. In addition to concessions on bases, Kishi may seek relaxation of strategic trade controls, control over some aspect of the administration of Okinawa, or permission for natives of the Bonin Islands to return from Japan. [REDACTED]

Comment

Kishi feels he must demonstrate his "independence" of the United States in order to counter the opposition Socialists' charges that he is too pro-American. At the same time, he would like to demonstrate to his own conservative party and to the public that he commands the respect and has the backing of America.

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7. HUNGARY RETURNING TO STALINISM

Comment on:

[REDACTED] Hungarian premier Kadar's speech in Moscow on 27 March indicates an unabashed return to Stalinism and official adulation of the USSR in Hungary. Kadar said that some policies in Hun-

gary during the Stalin-Rakosi era--particularly the regime's treatment of the bourgeoisie--were too lenient, and that Rakosi's mistakes were overshadowed by his "lasting achievements."

Kadar and Soviet premier Bulganin raised the possibility of a Stalinist-type show trial by their vigorous denunciations of Imre Nagy for treason to state and party. They also charged Yugoslavia with involvement in the Hungarian revolution. Bulganin claimed to have evidence that Nagy was plotting against the state long before October 1956. Bulganin's charge that Yugoslav leaders gave Nagy "practical support" above and beyond propaganda and moral aid is the first such Soviet attack, and will probably provoke a violent Yugoslav response. [REDACTED]

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8. USSR PROPOSES \$200,000,000 BARTER ARRANGEMENT TO SPAIN

Reference:



The Spanish cabinet has under consideration a Soviet proposal for a \$200,000,000 barter arrangement, according to the Spanish Foreign Ministry. The proposal provides for the exchange of Spanish goods for Soviet tractors and machinery.

The USSR has made numerous other overtures in recent months for a restoration of diplomatic and trade relations with Spain. In view of Spain's current economic difficulties, the Soviet offer may prove hard to resist. The Spanish may regard it as an excellent lever to speed up US action on Madrid's request for \$25,000,000 to \$30,000,000 worth of industrial raw materials and machinery from the United States. It is unlikely, however, that the Spanish government would agree to any formal diplomatic or economic relationship which does not satisfy Spain's claims to the \$500,000,000 in gold which the Spanish Republican government sent to Moscow during the Civil War.

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9. SERIOUS TROUBLE FORECAST FOR FRANCO REGIME

 Retiring Spanish foreign minister Martin Artajo told American chargé Byington on 26 March that he felt there was "trouble in store" for the government unless it could achieve a greater degree of liberalization and get closer to the people.

Byington believes that the critical economic situation may worsen. He points out, however, that Martin Artajo's decision to remain in Madrid rather than accept an ambassadorial post abroad indicates that he does not expect any major political upheaval.

Comment

The regime's failure to stem the mounting inflationary threat has aroused increasing concern throughout the country. There is growing worker unrest over the rising cost of living and continued student hostility to restrictions on freedom of thought and expression. The Church has also shown signs of wishing to dissociate itself from a government that is becoming increasingly unpopular, and military leaders fear the possible results of Franco's refusal to arrange for an orderly succession of powers.

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**CORRECTION TO ITEM 2, PAGE 4, OF CURRENT INTEL-
LIGENCE BULLETIN DATED 28 MARCH 1957**

The first sentence should read: "The Shah of Iran told a competent American observer on 23 March that he had initialed an oil agreement with the Italian government-owned oil company--Ente Nazionale Idrocarburi (ENI)--on terms more favorable to Iran than other oil agreements."

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ANNEX

No. 347

Watch Report 347, 28 March
of the
Intelligence Advisory Committee

Conclusions on Indications of Hostilities

On the basis of findings by its Watch Committee, the Intelligence Advisory Committee concludes that:

- A. No Sino-Soviet bloc country intends to initiate hostilities against the continental US or its possessions in the immediate future.
 - B. No Sino-Soviet bloc country intends to initiate hostilities against US forces abroad, US allies or areas peripheral to the Orbit in the immediate future.
 - C. A deliberate initiation of hostilities against Israel by the Arab states is improbable in the immediate future. Israel, though apparently still relying on diplomatic measures, may at any time renew hostilities if faced with one or more provocations, such as an introduction of substantial Egyptian military forces into the Gaza strip, a renewal of extensive fedayeen raids, or an attempted denial of passage for Israeli shipping through the Straits of Tiran. Other unsettled issues and tensions in the Middle East, especially in Syria and Jordan, also constitute possibilities for violence.
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